SUPREME COURT, U. S.

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IN THE

Supreme Court of the United States

October Term, 1967

No. 906

ROVICO, INC.,

Petitioner,

against

AMERICAN PHOTOCOPY EQUIPMENT COMPANY,

Respondent.

PETITION FOR REHEARING OF ORDER DENYING PETITION FOR WRIT OF CERTIORARI

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Petitioner respectfully prays for a rehearing of its Petition for a Writ of Certiorari, filed December 12, 1967, denied March 4, 1968.

Rehearing is sought in view of the filing on February 14, 1968 of a Petition for Certiorari in the Fourth Circuit case of *Marvel Specialty Company, Inc.* v. *Bell Hosiery Mills, Inc.* (October Term, 1967, No. 1120).

Reasons for Rehearing

The public importance of Questions 1-4 in the present case is demonstrated by the issues in *Marvel.*

1. *Conflict Between Two Circuits.*

One common issue raised in both cases, *derivation of patent royalties from unpatented attachments to patented machines,* has resulted in conflicting decisions by the Fourth and Seventh Circuit Courts of Appeals. We believe that the Fourth Circuit was right in *Marvel* and the Seventh Circuit wrong in the present case.

2. *Error Common to Two Circuits.*

On another common issue, *measuring the patent reward by "established royalty" instead of "reasonable royalty"*, the two Circuits are in accord. We believe they are both wrong.

Both issues are of great public concern, and it is believed that the public interest would best be served by a resolution of these issues by this Court for the guidance of all of the Circuit Courts of Appeals.

I. The Fourth and Seventh Circuit Courts of Appeals are in conflict on the right to derive royalties from unpatented attachments to patented machines.

In both cases, when the patented machine is sold (or leased) separately, the royalty is paid on the patented machine alone. In both cases, when the patented machine is combined with an unpatented machine (or attachment), the royalty is paid on the combination of both. In *Marvel,* the Fourth Circuit disapproved the royalty on the unpatented attachment; in the present case, the Seventh Circuit approved:

Fourth Circuit Decision In *Marvel* (*Marvel* Petition, p. 8a)	District Court Decision In Present Case (Our Petition p. A28) Affirmed By Seventh Circuit (Our Petition, p. A43)
"* * * plaintiff marketed two machines, one manufactured strictly in accordance with the teachings of the patent, and the other, an 'improved' model, incorporating an additional unpatented device. We	"While APECO's royalties are charged as a percentage of the retail selling price of the whole photocopying machine, [patented] developing and [unpatented] exposure devices alike, it would seem illogical

agree with the district judge that the portion of the $9.00 monthly charge attributable to the unpatented attachment is not an element of plaintiff's permissible recovery."

to this Court to conclude that APECO thus expanded its patent monopoly to include a non-patented device."

The Fourth Circuit decision in *Marvel* obviously coincides with the dissenting opinion of Judge Schnackenberg in the present case (Our Petition, p. A44):

> "The record shows that the patented machine is made and sold in combination with unpatented machines installed in the same cabinet and that the royalty paid by the manufacturer, is based, not on the manufacturer's selling price of the patented machine, but on the retail selling price of the entire combination, patented and unpatented machines alike. Thus, although the royalty rate of 6% remains constant, the actual royalty, applied to the manufacturer's selling price, ranges between 24% and 136%. It has been demonstrated in this case that the patent privilege in this case is being used by plaintiff contrary to the public interest."

In *Marvel*, the royalty on the unpatented machine, which the Fourth Circuit disallowed, represented ⅓ of the total royalty.

In the present case, the royalty on the unpatented machine, which the Seventh Circuit majority approved, admittedly amounts to *at least* ½ of the total royalty; actually it amounts to far more. The patented machine represents only 8%-15% of the value of the combined machines. Hence, of every royalty dollar paid (whether under license or under judgment) only 8-15 cents rewards

the patentee for his invention, and 85-92 cents is derived from the unpatented machine under the leverage of the patent (Our Reply to Respondent's Brief, p. 5b).

II. The Fourth and Seventh Circuit Courts of Appeals are in error in measuring patent reward by "established royalty" instead of "reasonable royalty".

In both cases, there is an "established royalty". In both cases, the Courts erroneously adopted the "established royalty" as the measure of patent reward without regard to whether the "established royalty" is or is not a "reasonable royalty":

Fourth Circuit Decision In *Marvel* (*Marvel* Petition, p. 6a)	District Court Decision In Present Case (Our Petition, p. A26) Affirmed By Seventh Circuit (Our Petition, p. A42-43)
"If no fixed royalty has been established, the courts will undertake an inquiry into what is a reasonable royalty. * * * "* * * where there is an established royalty, the Supreme Court, as early as 1886, held that the established royalty is the 'best' measure of damages."	"We cannot assume that there exist restrictions against 'unreasonably high royalties.' absent any proof of favoritism or conspiracy to fix prices * * *. * * * The free competitive market place has built-in controls such as supply and demands to limit the royalties charged by a prospective licensor. There is no indication that further controls are justified."

In the present case, as in *Marvel,* "established royalty" is the measure of damages and license fees alike.

In *Marvel,* the "established royalty" is under attack as being "*less* than a reasonable royalty" (*Marvel* Petition, p. 10); here it is challenged on the ground that it is exorbitantly and oppressively *more* than a reasonable royalty (Our Petition, p. 12).

The so-called 6% royalty in the present case is *admittedly* at least 24% of the licensee's (manufacturer's) selling price of the patented machine (Our Reply to Respondent's Brief, p. 5).

In the first appeal herein, the Seventh Circuit unanimously held this 24% royalty to be "exorbitant and oppressive" (Our Petition, p. A7).

In the second appeal, the dissenting Judge found the actual range of the royalty to be "between 24% and 136%" of the licensee's (manufacturer's) selling price of the patented machine, and held it to be a use of the patent privilege "contrary to the public interest" (Our Petition, p. A44).

Conclusion

We believe that the Patent Clause of the United States Constitution requires that the patent privilege be exercised as a public trust in fairness to all concerned——

the patent owner,

patent licensees,

even patent infringers,

and, not least, the public.

The patent reward must be fair and reasonable; otherwise it is not a reward and it does not "promote the progress of science and useful arts".

Where, as in *Marvel,* the patent reward is "less than a reasonable royalty", unduly favoring the infringer at the expense of the patent owner and legitimate licensees, the patent owner should have relief.

Where, as here, the patent reward is so far in excess of "reasonable royalty" as to be "exorbitant and oppressive" (as found by the Seventh Circuit in the first appeal herein) then those who are legally positioned to complain—those, like petitioner, who are charged with infringement—should have redress, not only for their own protection, but for the protection of the public as well.

This should particularly be so where, as here, the magnitude of the royalty is admittedly, and by finding of both courts below, due to its derivation

(a) not from the patented machine alone, but from its unpatented combination with an unpatented machine, and

(b) not from the licensee's (manufacturer's) selling price, but from the selling price of licensee's customers (retailers).

It is respectfully urged that this petition for rehearing be granted, so that these issues of great public importance may be resolved, and that respondent be found by this Court, as by the dissenting judge below, to be using the patent privilege "contrary to the public interest".

Respectfully submitted,

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of Counsel.

Certificate of Counsel

It is hereby certified that:

A. This Petition for Rehearing is presented in the utmost good faith;

B. This Petition for Rehearing is not presented for delay of proceedings in this or in any other Court;

C. This Petition for Rehearing is limited to the grounds specified in Rule 58, paragraph 2.

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